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## RUSSIA AND THE BALTIC STATES


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*Nikolai Mezhnevich*

### ECONOMIC ASPECTS OF RUSSIAN-BALTIC RELATIONS IN 2007—2008



*The influence of the events related to the transfer of the remains and the monument to Soviet soldiers in central Tallinn on the Russian cargo transit flows through the Baltic Sea region is described. The author shows that there has been a redistribution of Russian cargoes and their shipment through the ports of Latvia and Lithuania lately. According to the author, the positive dynamics of Russian-Latvian and Russian-Lithuanian relations should be sustained, proceeding from the assumption that sooner or later, the logic of economic cooperation may prove stronger than political considerations.*

**Key words:** Baltic States, Estonia, Latvia, Lithuania, Russia, Russian-Baltic relations, Russian cargo transit, ports of the Baltic States.

There is an old joke about a diplomat, a soldier and a meteorologist, who, due to their professional training, tend to answer either “yes — no — maybe” to certain topical questions. The diplomat from the joke, as diplomats generally would, prefers the answer “maybe”, while the soldier will answer in a straight forward way- “yes or no”.

With this joke in mind, one should consider the statement of the Deputy Prime Minister of the Russian Federation Sergei Ivanov which he made in June 2008 at the meeting of the Russian Federation Naval Collegium. Mr. Ivanov stated that by 2015, Russia would have discontinued exporting any cargoes via the Baltic ports, since “we will have enough transportation capacity of our own”. The analysis of transit as a complex phenomenon does not presuppose a simple solution. Transit is a process of transporting goods and services from a manufacturer to a consumer through territories of third countries. It implies a complicated system of interdependencies between manufacturers, customers, and transit countries. If there is a lack of trust between the manufacturer and the customer the transit countries take on the function (not a typical function for transit countries) of an umpire in discussions between bigger and more powerful states.

Russian transit through the Baltic Region is not in itself a positive or negative factor in economy or, especially, in politics. Transit is, first and foremost, a technical mechanism of conducting foreign trade and foreign trade in its turn is a mechanism of pursuing the key interests of the state. Any trade implies minimisation of costs that is why if countries can avoid

transit they reduce it to the minimum. A principle question arises in this context: is there a political or economic need for a total discontinuation of transit and what economic (and non-economic) results will follow?

In this article we do not consider the conflict situation related to the relocation of the remains and the monument to Soviet soldiers in the centre of Tallinn. We are only interested in how this situation affected transit via the Estonian ports. Even before these events, influential representatives of the Russian transit business who own facilities in Estonia ultra diplomatically informed the Estonian authorities that the planned reburial and relocation of the monument would not improve economic and trade relations between Russian and Estonia. Of course, businessmen are cynical people, but they also have fathers, grandfathers and great-grandfathers buried between the Volga and the Elbe. That is why one should not demonise the Kremlin that allegedly ordered to impose sanctions. In 2007 the public reaction occurred surprisingly faster than that of the state and it turned out to be much more intense than that of the Kremlin. Then, after the well-known dramatic events, without any rash statements, the transit business started to move out their assets. But let us focus on transit. Let us analyse the 2007 data on the cargo turnover in a big Tallinn port [2].

Type of cargo	Loaded		2007/2006
	2006	2007	%
General cargo	1039,4	749,9	72,1
Bulk cargo	11334,0	7827,7	69,1
Fluid cargo	24051,4	22369,1	93,0
Ro-Ro cargo	3338,8	3562,7	106,7
Non-marine cargo	174,5	152,9	87,6
<i>Total, thousand tons</i>	41258,6	36027,6	87,3
Containers, TEU	152399	180911	118,7

The decrease in Russian transit is evident; but still there is room for an objection: maybe, these figures are arbitrary and do not reflect key tendencies? To answer this question, let us consider the data on cargo turnover in Latvian ports.

**Port of Ventspils, Latvia, January-December, 2007  
(according to the "Baltiyski kurs" magazine)**

Type of cargo	Loaded		2007/2006
	2006	2007	%
Fluid cargo	17997,0	20017,1	111,2
Bulk cargo	8596,5	8510,7	99,0
General cargo	2468,7	2509,5	101,7
<i>Total, thousand tons</i>	29062,2	31037,3	106,8
Containers, TEU	14241	16846	118,0

**Port of Liepaja, Latvia, January-December 2007**  
**(according to the “Baltiyski kurs” magazine)**

Type of cargo	Loaded		2007/2006
	2006	2007	%
Fluid cargo	965,7	818,7	84,8
Bulk cargo	1652,3	1880,5	113,8
General cargo	1382,7	1339,5	96,9
<i>Total, thousand tons</i>	4000,7	4038,7	100,9
Containers, TEU	7809	7665	98,2

**Port of Riga, Latvia, January-December 2007**

Type of cargo	Loaded		2007/2006
	2006	2007	%
Fluid cargo	4933,1	4823,0	97,8
Bulk cargo	15348,5	15485,2	100,9
General cargo	5075,4	5624,6	110,8
<i>Total, thousand tons</i>	25357,0	25932,8	102,3
Containers, TEU	176826	211840	119,8

In 2008 the tendency remained. In the first five months of the year the Baltic ports transhipped 59 million tons of cargo, which is just 3.4 % less than in the corresponding period of 2007 [1]. The aggregate changes seem to be insignificant but how did the transit geography change! Where to and where from were the transit cargoes still shipped in the Eastern part of the Baltic Sea?

The cargo turnover in the Estonian ports in January-May 2008 decreased by 31.6 % — to 15, 5 million tons. At the same time, Latvia transhipped 27, 2 million tons of cargo (+5.3 %). Latvia — 16,4 million tons (+29.3 %) [2]. Indeed, there are few prerequisites to intensify transit via Estonia, a state that has chosen anti-Russian propaganda as a mechanism of ethnic and political consolidation prior/in the course of/after the elections. In Riga, they came up with a special transit joke: the monument to the Estonian Prime Minister Andrus Ansip with the inscription: “To the Liberator of Estonian motherland from Russian transit — grateful Latvian transport workers”.

So, part of the cargo fled from Estonia to Latvia, driven not by logistical quality (considerably high, but almost identical from Tallinn to Klaipeda), but by a different political climate. The Russian-Latvian cross-border agreement ratified by the Latvian Seim (the Parliament), the cautious negotiations on the connection of the Nord Stream gas pipeline to the Inčukalins and Bauss underground gas storage facility as a reserve capacity, ensure a certain safety — pragmatism of our relations. It resulted in a tenfold profit increase for the ‘Latvian Railway’ concern in 2007 in comparison to the previous year. Of course, one should take into account the tariff increase and the inflation rate, but nevertheless, this figure is interesting and significant.



It leads to a question, whether one should cross out those minimal results of the Russian-Latvian rapprochement that shone through after the seventeen years of the micro-Cold war? Should one consider the present character of Russian-Lithuanian relations as the only possible, or it is reasonable to pay more attention to the positive dynamics of Russian-Lithuanian (or Lithuanian-Russian) trade? From our point of view it is reasonable to maintain the positive dynamics of Russian-Latvian and Russian-Lithuanian relations, taking into account that sooner or later the logic of economic cooperation may overcome political considerations, moreover, from outside. Unfortunately, Russian-Estonian relations, it seems, are not subject to quick reanimation any more.

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